Financing Social Enterprises and the Demand for Social Investment

Fergus Lyon and Robyn Owen

Centre for Enterprise and Economic Development Research (CEEDR),
Middlesex University Business School, London NW4 4BT
f.lyon@mdx.ac.uk

Key Sentence:

Social investors are supplying increasing amounts of finance to enterprises combining social and commercial objectives although these social enterprises are still more likely to seek bank finance, suggesting that social investors should focus on market gaps which are more likely to occur for smaller, younger social enterprises that lack track record and collateral.

Key Findings:

Social enterprises offer innovative ways of combining social and commercial objectives and are only slightly less likely to seek repayable finance than other SMEs, with younger social enterprises being more growth oriented and also more discouraged from borrowing. Where social enterprise borrowing takes place it is almost three times more likely to be from commercial banks, rather than specialist social investment lenders that are more likely to invest without requiring collateral. Social investment lenders should therefore focus their offer on finance gaps left by banks, notably in earlier stage social enterprise development, rather than compete for existing commercial bank market share.

JEL: G21, G23, G24, G28, L26, L53

Introduction

Social enterprises, operating at the interface of the non-profit sector and the commercial world, face particular challenges in accessing repayable finance as they are less likely to have the collateral of individual entrepreneurs and can appear less attractive to lenders and investors as they have to balance their social mission with commercial objectives (Doherty et al, 2014; Vickers et al, 2017a). This has been used as a justification for a wide range of social investment loan finance for these innovative ‘hybrid’, social enterprises that are wanting to scale up but may lack the security required by conventional lenders or (Nicholls, 2010; Castellas et al, 2018). However, little is known about the actual demand for repayable finance by these social enterprises, and how social investment can fill a finance gap left by conventional lenders.

The supply of specific investment for social enterprise is expanding with specialist social investment programmes around the world (Vickers et al, 2017b; Rizzi, 2018). These funds are financed by investors that seek opportunities to lend to organizations that create social value at the same time as generating a financial return (Nicholls 2010) and range from financing programmes that offer subsidised loans for organisations with social values to forms of philanthropic venture capital.

Much existing analysis of the social investment sector has focused on the nature of the supply with less attention to which types of organisations want and can afford debt finance. This paper therefore poses three research questions: which social enterprises are using repayable finance? What are the sources of investment sought? And which social enterprises are using specialist social investment?

These questions are examined by taking the case of innovative hybrid organisations in the UK. In the UK there are a range of different social investors with added support from the wholesale provider of finance, Big Society Capital. The UK government has promoted itself as the international leader in this field particularly following its chairing of the G8 in 2014 (Big Society Capital, 2014). Analysis commissioned by Big Society Capital suggested a growing demand, centred on expectations of a growing role of social enterprises in public service delivery, changes in commissioning and the ability of social enterprises to develop sustainable business models (BCG, 2013).

Existing analysis of demand for investment does not distinguish between demand from mainstream lenders (i.e. Mainstream 'High Street' banks) and demand from social investment finance intermediaries. There are further unanswered questions on the roles of commercial banks and social investors with regard to lending to social enterprise without collateral.

This paper contributes to two fundamental theoretical issues related to the nature of hybrid organisational forms and the nature of finance that combines social and environmental aims with commercial objectives. First, it examines how these organisations delivering social and environmental services use loan finance of different kinds. It contributes to SME finance theory by examining how social enterprises differ from other SMEs in terms of their preference for different types of finance (i.e. their pecking order). Second, the forms of social investment described above are explored and are shown to be in themselves hybrid forms that combine both financial returns with social and philanthropic aims. However, we raise important policy questions over the additionality of such philanthropic investment as it can displace or crowd out mainstream bank finance rather than having additional social impacts. Implications for the evaluation of social investment are also explored.

This paper takes the social enterprise as the unit of analysis and focuses on the use of repayable loan finance that might come from specialist social investors or from conventional sources such as banks. This is distinguished from other forms of finance (sometimes also referred to as social investment) such as retained profit/surplus, grants and investment from owners/staff. Grant finance is not included in the analysis, although it is recognised that for many social investors, loans can be combined with grants. The paper starts by reviewing the literature on social enterprise finance. It then sets out the methodology based on using the SEUK survey (2013) which is the largest and most robust available survey of UK social enterprise use of external investment. The findings section presents the analysis of how different types of social enterprise use loan finance and the particular role of social investment in lending to those social enterprises that may have less access to finance from conventional sources. The discussion and conclusion contribute to debates on the nature of finance for the social economy, and policy interventions to create and grow a form of subsidised finance.

Literature Review

Social enterprise and use of repayable finance

Social enterprises are defined by their combination of social mission and commercial orientation (Austin et al, 2006; Mair and Marti, 2006; Doherty et al, 2014). As such, they are an organisational form characterised by hybridity (Billis, 2010) that challenges traditional concepts of economic organising (Wilson and Post, 2013). A key challenge facing social enterprises is the management of the competing institutional logics of social value and commerce (Pache and Santos, 2012) and the need to bridge these institutional fields (Tracey et al, 2011) particularly when innovating (Vickers et al, 2017a).

Defining social enterprise is particularly challenging as organisations can be located on a continuum between the purely philanthropic and the purely commercial (Dees, 1998). Some are firmly paced within the charitable sector with legal forms that involve asset locks and restrictions on distributions. There are social enterprises, such as B Corps, that can have private sector legal forms. In all countries there are a range of legal forms of governance that social enterprises can draw on for a range of governance models (Smith and Teasdale, 2012; Lyon and Faruq, 2018).

With the emphasis on both social and financial objectives, social enterprises differ from other social ventures with respect to their use of finance (Austin et al, 2006). This change is particularly evident as organisations distance themselves from purely philanthropic sources of income, and seek out trading income (Dees, 1999). The management of social enterprises becomes further distanced from a philanthropic model when repayable or loan finance is sought. In such cases a commercial venture is required in order to generate a cash flow and surplus to repay the loan (Lumpkin et al, 2013). However, research by Sunley and Pinch (2012) found that social enterprises with asset locks[1] restricting individual benefit continued to rely on public sector grants and were cautious about taking on debt. There is therefore a lack of clarity about the current use of repayable finance and the current demand.

---

[1] Statutory asset locks exist for Charities (regulator: Charities Commission), Community Interest Companies (CIC regulator) and for Community Benefit Societies.

The current demand for finance from social enterprises, requires attention to the extent of discouraged borrowers. This has been a focus of much research for SMEs more generally. Widespread evidence suggests that access to finance for all types of enterprise (including social enterprise) became considerably more difficult and expensive in the UK after the global financial crisis (GFC) and was constraining potential business growth. The aftermath of the GFC resulted in an increasing incidence of discouraged borrowers (Fraser, 2009[2]) as opposed to 'happy non seekers' (Fraser, 2014). Although there have been signs of improved bank lending in the UK subsequently (Bank of England, 2015), the discouraged borrowers and those not able to get the finance they require contribute to what some term the funding gap[3]. It is worth noting that Kon and Storey (2003) and more latterly Owen et al (2016) urge caution as to the level of validity (how great the need, as opposed to wishful thinking) and viability (does the business have a sufficiently robust case and track record to merit funding) of discouraged borrowers – suggesting that whilst it contributes to the finance gap, it requires careful contextualisation.

The supply of finance is a particular problem for those enterprises that lack collateral and a track record. Primarily, there are problems of accessing early stage business finance in matching the changing financing needs and options of small firms as they become '*less informationally opaque*'

[2] A detailed discussion of discouraged borrower theory is presented in Kon and Storey (2003)
[3] UK funding gaps have been referred to regularly since Macmillan (1931), with Breedon's (2012) report on UK SME financing options estimating a finance gap of in excess of £84bn over the next five years. During recessionary times the supply of finance to SMEs is further constrained by banks' 'cyclical' credit rationing, resulting in more expensive, more stringent terms of lending (Cowling et al., 2012). This means that even for more established SMEs, the availability of working capital overdraft, short term loan and asset finance has been limited, severely hampering further business development. The availability of less expensive longer term 'patient' loan finance for business growth projects amongst more established SMEs has also been severely curtailed (GLA, 2013).

to potential finance providers (Berger and Udell, 1998). A central tenet is that the inter-connectedness and substitutability between different sources of finance is crucial to financing the continuous development of businesses. Obtaining finance is more difficult for early stage businesses and those that do not meet existing norms of business – such as highly disruptive market innovators (North et al. 2013) or SEs with legal forms of ownership and income streams, that are atypical of mainstream businesses. These may lack track record and collateral and face informational asymmetries. Information asymmetries occur where financiers do not possess sufficient knowledge and understanding of the business proposition and are unable to assess its viability without undertaking considerable due diligence. Undertaking the required level of due diligence check may be prohibitively expensive to undertake to justify funding and leads to a market failure gap – a form of agency failure (Akerlof, 1970 & 1976) - where viable propositions are not funded (North et al. 2010). Where funding takes place without sufficient due diligence, two associated forms of agency failure can take place which relate to moral hazard where business managers do not perform as well as expected, and adverse selection where unsuitable poor performing businesses are funded (Carpenter and Petersen, 2002; Hsu, 2004; Hughes, 2009). In the past, banks sought to overcome information asymmetries through relationship banking (Berger and Udell, 1995 & 2006) where appointed specialist SME bank finance officers/managers develop direct relationships with their clients to better understand their business operations, income and financing patterns and external financing needs. Whilst this can work effectively with existing clients and where there is low staff turnover, it has proved expensive to operate and less effective for younger businesses (North et al, 2010). Therefore, despite some findings that banks operating relationship lending practices perform better during economic downturns (Bolton et al. 2013; Beck et al. 2014) in the UK, notably since the GFC, banks have moved out of early stage business lending and away from relationship banking (Cowling et al 2012; GLA, 2013; North et al 2013). Moreover, the use of standard credit scoring techniques by banks tends to favour established trading businesses with collateral rather than higher risk intangible asset based enterprises (Stiglitz and Weiss 1981; Bank of England 1996 and 2001; Cressy 2002; Fraser, 2014).

Additionally, it should be noted that poor access to repayable finance is not only caused by the suppliers of finance as applicants must also present investible propositions. Mason and Kwok (2010) and Mason and Harrison (2001) find that SME owners-managers often have little finance application experience, with various studies (e.g. North et al 2013; Owen et al, 2016) demonstrating that experienced entrepreneurs have greater success. Age and size of enterprises can therefore shape access to finance. The issue of the maturity and experience of enterprises leads us to our first hypothesis

> *H1. Social enterprises' use of repayable finance is likely to increase with the size, age and growth ambitions of the social enterprise.*

Sources of repayable finance for social enterprises and the use of social investment

Social enterprises can have a number of sources of repayable finance although there has been no research on the preferences for different types. The use of pecking order theory from mainstream SME finance theory can provide insights into the business demand-side preferences for different sources of finance. Myers (1984) and Myers and Majluf (1984) recognise an entrepreneurial pecking order preference for internal over external finance and then debt finance over ceding equity. A key to business pecking order preferences is the optimisation of retained ownership and effective cost and availability of external finance where required. Therefore, as subsequent studies have found, whilst the basic premise of the theory holds, the availability of different forms of external finance along the finance escalator, combined with past experience and external linkages to particular financiers can have strong influence. Atherton (2009), Baldock (2013), Baldock et al (2015) find that pecking orders may be adjusted by entrepreneurial experiential conditioning, with experienced entrepreneurs' past experience creating path dependency preferences (Teece, 2007) for the types of finance they have used before. Furthermore, the availability of certain types of finance may lead to readjustments. For example, the availability of grant finance which is deemed preferable to debt or equity, may require matching private funds which in practice can only be met by equity, rather than debt finance. This, along with for example serial entrepreneur preferences for equity finance, has led to the inversion of pecking order theory with preferences for equity over debt finance for young innovative businesses described by North et al (2013) and Baldock et al (2015). For social enterprises that may have become path dependant on grant funding which is no longer available it may be theorised that they will seek debt finance and more likely specialist finance if it is lower cost, or more readily available than other forms of mainstream finance.

The conventional SME finance theories support the use of a financing lifecycle stages model (Burger and Udell, 1998[4]) and there are assumptions that this should be equally applicable to social enterprises (Birkett, 2010). While social enterprises can seek support from banks and venture capitalists (Bryson and Buttle, 2005), they differ from other enterprises as they are able to combine commercial finance with philanthropic sources, and may be able to draw on their relationships with other stakeholders to source grant finance instead of having to seek repayable finance (Chertok et

[4] Adapted for example in the finance escalator model by North, et al. (2013) and Harrison (2013)

al, 2008; Dees, 1998). This suggests that new and young enterprises will have pecking order preference of self-funding and grant funding, followed by subsidised debt followed by market rate debt funding and finally equity. As they become more established and mature, typically with a minimum two year trading track record, they will become more attractive to mainstream bank lenders. However, there is an assumption that investors and banks will prefer commercial companies over social enterprises as they may be better at generating cashflow and surpluses (Lumpkin et al, 2013).

To meet this perceived finance gap for social enterprises, there has been a rapidly growing ‘social investment’ infrastructure emerging across the world. While banks and conventional sources are important (Bryson and Buttle, 2005), finance with social value orientations combining both financial and social returns have been given increasing attention by policy makers (Social Business Initiative, 2014) and researchers (Nicholls, 2010; Jeggers and Nicholls, 2016). This latter form of ‘social investment’ provides finance at preferable rates and combines loans with elements of philanthropy (Scarlatta and Alemany, 2010; Lumpkin et al, 2013), or longer term patient capital (Van Sandt et al, 2009).

Questions remain over the types of social enterprise that are using social investment. The justification for having philanthropic or public sector funds used for social investment is based on the perceived market failure of mainstream commercial repayable finance and the inability of particular social enterprises to seek repayable finance from elsewhere. As discussed earlier, younger enterprises with a lack of collateral may find accessing finance harder and therefore be more likely to receive social investment funding.

This leads to the second and third hypotheses:

H2. Social enterprises have a preference for social investment sources of finance over other forms of repayable finance?

H3. Social investment is more likely to be provided to social enterprises that cannot seek finance from elsewhere due to lack of collateral

Social enterprise and social investment in the UK

The role of social enterprises has been evolving in the UK during the past two decades. The UK Government has a policy to support the transition of many charities and community service providers into social enterprises, aiming to reduce their grant dependency by establishing new financing instruments to fund their development with the goal that they become a more efficient and effective provider of public services, notably in deprived neighbourhoods (Cabinet Office, 2011). At the time, policies of austerity have led to cuts in public sector programmes to build the capacity of social enterprise.

There is a growing interest in lending for a social purpose amongst philanthropic funds, the government and growth oriented social enterprises in the UK. There are various sources of ‘social investment’ with Big Society Capital acting as a wholesale bank for social investors developing innovative sources of finance. While the social investment policy agenda continues previous governments’ policies, the actual outcomes can be seen in various diverse wider policy objectives, including some radically new ones. The capital funding can also be used to finance the more radical areas of policies such as the involvement of social enterprise in driving competition in health services, free schools and academies, and the delivery of Payment by Results contracts (where social enterprises may be paid months after delivery of the service based on getting people back to work or reducing reoffending).

These policies and investment funds have been operating in an uncertain environment. Firstly, there is lack of evidence of demand for loan finance from social enterprises. Secondly, there is lack of knowledge about the existing supply of mainstream finance that might be operating in competition with social investment. This paper focuses on the latter two issues.

Methodology

This paper draws on an analysis of the Social Enterprise UK survey of 878 social enterprises (SEUK, 2013). This provides the most robust and comprehensive data set on UK social enterprise. The sample frame of 9,024 organisations was built from members of social enterprise umbrella bodies representing UK regions and social enterprise sectors. The survey questionnaire confirmed if organisations conformed to the standard UK government definition of social enterprise with at least 26 per cent of annual income from trade as opposed to grants and donations and with respondents defining themselves as social enterprises complying with the following statement:

> *"Social enterprises are defined as "businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather*

than being driven by the need to maximise profit for shareholders and owners. The social enterprise movement is inclusive and extremely diverse, encompassing organisations such as development trusts, community enterprises, co-operatives, housing associations, 'social firms' and leisure trusts, among others. Would you say that does describe what your organisation does?"

This results in a large sample of organisations self-defining as social enterprises and having links to regional support infrastructure bodies, but may exclude some organisations that are not linked into these support networks. The majority of organisations (51 per cent) were Companies Limited by Guarantee (CLG), usually with 'Charity' status, with a further 19 per cent being cooperatives with an Industrial and Provident Societies form (IPS), 17- per cent being Community Interest Companies (a new legal form with asset locks to restrict private distributions) and 12 per cent being Companies Limited by Share (but with a core social purpose, similar to B-Corps). Forms of social enterprise such as cooperatives, social firms or development trusts can take on any of these legal forms. There is no population survey of social enterprise but comparisons of the sample frame to other large samples shows that this survey is broadly representative. A comparison with the National Survey of Third Sector Organisations[5] shows no statistically significant differences relating to sectoral balance, legal ownership status and the size of organisations, once the private sector entities have been taken out of the State of Social Enterprise sample[6].

[5] Renamed National Survey of Charities and Social Enterprises
[6] Mann-Whitney two-tail tests showed no significant difference by annual income size or legal ownership status at .05 level

Senior managers or owners of social enterprises were telephone interviewed in February 2013 on whether they had applied for new sources of external finance during 2012. Further to undertaking descriptive analysis of the of the SEUK, binary logistic modelling is used to establish: (i) firstly, the likelihood for seeking debt finance in the last 12 months; (ii) secondly, the likelihood for success in receiving some debt finance; (iii) thirdly, the likelihood of receiving all debt finance required. The dependent variables (sought, received some, and received all) were tested against a series of independent variables relating to social enterprise characteristics, including: establishment age; size by annual income; legal status; main trading customer market; future growth aim orientation. In further analysis, consideration is given to the type of debt finance sought and the type of lender approached.

Using a sifting process, it was quickly possible to identify many of the business characteristics as insignificant and those presented in the model were those which appeared to have greatest significance in the likelihood of social enterprises seeking and receiving formal external debt finance in the previous 12 months.

Findings

Social enterprises' use of repayable finance.

Our first research question explored the types of social enterprises that were seeking and receiving repayable finance. The analysis showed that almost half (47.6 per cent) of the surveyed social enterprises sought external finance in 2012. However, a large proportion of this is in the form of grant finance. Our focus in this paper is on repayable debt finance which was sought by

14.8 per cent of social enterprises, relating mainly to loans (9.8 per cent) and overdrafts (6.2 per cent)[7].

Our analysis focused on the types of seekers of debt finance presented in Table 1. Univariate analysis demonstrates that demand for debt finance is significantly (<.001 level) greater amongst the largest social enterprises with annual income of over £1m (28.1 per cent), with least demand amongst the smallest social enterprises with less than £100,000 annual income (9.8 per cent). While there is a diverse range of legal forms, there are no significant differences in the results of regression modelling (Appendix).

(insert Table 1: Types of Social Enterprise Debt Finance Seekers)

There is also greater likelihood of seeking debt finance from those expecting growth, although 11 per cent of social enterprises forecasting declining sales turnover were seeking finance, suggesting that they are investing in changes in order to re-establish themselves, or are taking on debt to survive.

There is a significantly (<.01 level) high proportion of social enterprises aged between 6-10 years seeking debt finance. Examining all social enterprises (n=878) growth aim is significantly (<.05 level) associated with younger traders, declining in each ascending age category (from 85 per cent trading under two years to 48 per cent trading over 20 years). The 6-10 year category (55 per cent

[7] Note that multiple types of finance could be sought by surveyed SEs during the 2012 year.

seeking future growth) is therefore less likely to be growth oriented than the younger age categories.

It is also evident that social enterprises whose main trade is with the public sector have a significantly (<.05 level) higher proportion seeking debt finance (19.7 per cent), followed by those mainly trading with the private sector (15.5 per cent). Sectoral analysis demonstrates that social services and childcare (22.9 per cent), culture and leisure (22 per cent) and employment and training (21 per cent) were all significantly (<.05 level) more likely to seek debt finance than social enterprises surveyed in the other sectors categorised. However, it should be noted that most social enterprises delivered services across a number of sectors.

When examining the success rates for secured and unsecured loans, there appears to be little difference, with just over two thirds of secured and unsecured loans providing all finance required whilst 75.9 per cent of those with security and 73.3 per cent of those without security receiving at least some of the funding requested. Larger social enterprises, with annual income of over £1m, were significantly more likely (at <.05 level) to receive at least some of the finance required (84.2 per cent). Indeed, only three in five (61.3 per cent) applicants in smaller firms with under £100,000 annual income received all of the funding that they required compared with more than four out of five (81.6 per cent) of those with annual income of over £1m. Success rates varied according to the type of debt finance sought, with leasing finance (89.3 per cent) and mortgage finance (80 per cent) both significantly (<.05 level) more successful in gaining all finance required, followed by overdraft finance (66.7 per cent) and term loan finance (65.1 per cent). A significantly (<.05 level) higher proportion of those seeking overdraft (79.5 per cent) than loan (69.8 per cent) finance received at least some funding.

Larger debt finance seekers with over £1m annual income were more likely to be trading with the public sector than their smaller counterparts (71.1 per cent compared to 61.4 per cent) and significantly less likely to be trading with the private sector (<.01 level; 42.1 per cent to 68.7 per cent) and other social enterprises (<.05 level; 39.5 per cent to 59 per cent). It is also evident that a higher proportion of businesses trading mainly with the public sector were able to receive all (74.4 per cent) or at least some (79.5 per cent) of their required formal debt finance. This suggests that public sector clients may be perceived by debt financers as more reliable sources of income (despite recent public sector cutbacks), or those with weaker business cases are more likely to be dissuaded in applying in the first place.

Whilst enterprise age was not a significant factor in success rates, it is evident that the older established enterprises, trading more than six years, with longer financial track records were more successful in receiving either all or at least some of their required debt finance. It is notable that those enterprises trading between 3-5 years were least successful in obtaining finance, with more than one third of these debt finance seekers (35.3 per cent) receiving no formal debt finance.

The only sector exhibiting a slightly significant trend is the lower proportion of employment and training enterprises receiving at least some finance (56 per cent; significant at <.1 level), with a low proportion of smaller enterprises experiencing any success (47 per cent of applicants with under £1m income). The creative enterprise sector also exhibited proportionally lower success rates, supporting Fraser's (2014) findings that enterprises in this sector may suffer from more acute information asymmetry issues.

One in five social enterprises (21 per cent) may be termed 'latent borrowers' that had not sought external debt finance during the previous 12 months, but indicated that they may have sought finance if circumstances had been different. Within this group,'discouraged borrowers', who were deterred by external financing circumstances, rather than wider economic, conditions, were significantly more likely (<.01 level) to be smaller social enterprises with less than £100,000 annual income, and also more likely to be younger enterprises trading for five years or less (11.2 per cent). The proportion of latent borrowers is considerably higher than the 11.3 per cent recorded in the UK employer SMEs survey during the previous 12 months in the SBS 2012 (BIS, 2013). The majority were likely to be waiting for a suitable economic up-turn before commencing with new investment (effectively forming part of Fraser's 2014 'contented non borrowers'). However, there was evidence of Fraser's (2009) 'discouraged borrowers' demonstrated by the 8.8 per cent (compared to 6 per cent of employer SMEs in the SBS 2012) that perceived that the cost of finance was too high or the terms were too stringent (2.8 per cent, with 1.4 per cent lacking sufficient security, and 0.3 per cent discouraged by previous rejection), that they did not know where to find appropriate finance (2.5 per cent, with 1.4 per cent lacking confidence to apply, 1.5 per cent expecting rejection from known sources, and 0.8 per cent stating no suitable sources available), or would take too long to find appropriate finance (0.8 per cent). It is also likely that some of these organisations do not have viable business propositions that are needed to pay back loans. The suggestion is that these are the social enterprises that require investment readiness assessment and assistance prior to application (Mason and Kwok, 2010).

The sources of investment used

The second research question explored the sources of investment. Mainstream banks are the most frequently applied for source of debt finance by 64 per cent of debt finance seeking social enterprises. One in four of social enterprises seeking debt finance approached social investors.

(insert Table 2: Main sources of debt finance applied for)

The average size of lending differs according to the type of the provider. Even after applying a trimmed mean, social investors were approached for loans that were on average slightly smaller than for banks. However, the lower median for bank lending suggests that a lot of bank loans to social enterprises were considerably smaller.

(insert Table 3: Amount of Debt Finance Sought by size of social enterprise and provider type)

The third research question examines the types of social enterprise using specialist social investment. Social investment is aimed to provide finance where other providers are unable or unwilling to invest. It is therefore expected to be found in early stage enterprises and those without collateral. When analysing the age of enterprises and their sources of finance, we found that for the social enterprises under 20 years old and seeking finance, 25 per cent were going to social investors. However, for the finance seekers over 20 years old, only 14 per cent were going to social investors. It is notable that social enterprise borrower preferences for bank finance increase with trading age (51 per cent trading up to two years rising to 76 per cent trading more than 20 years).

Social enterprises were more likely (but not significantly) to obtain all of the funding that they required from a social lender (75 per cent), or source other than mainstream banks (65.1 per cent). However, the highest proportion of social enterprises failing to obtain any finance came from social lenders (25 per cent). Social enterprises appear more successful in obtaining mainstream bank finance from first source providers when we compare with employer SMEs in the SBS, 2012, where only 63 per cent successfully received at least some finance (56 per cent receiving all) from their first source mainstream bank.

(insert Table 4: Type of Lender by Social Enterprise Success Rates in Obtaining Debt Finance)

Discussion

The first research question explored the types of social enterprises using repayable finance. The hypothesis 1 stated:

> *H1. Social enterprises' use of repayable finance is likely to increase with the size, age and growth ambitions of the social enterprise.*

The analysis shows that a sizable proportion (14.8 per cent) are seeking repayable finance with 63.1 per cent getting all and 6.1 per cent receiving part of what they requested. During the same time period, 14.6 per cent of SMEs were seeking finance with 58.3 per cent successful in receiving all and 3.5% receiving some (BIS, 2013). The assumption that social enterprises are unlikely to receive finance due to their combination of social and commercial objectives not fitting the norms of investors, is therefore challenged. We also examined how access to finance is related to age and size. With regard to the hypothesis, we assumed that as organisations become more established and have collateral or secured assets against which they can borrow, their use of repayable fiancé will increase. The findings show that we can accept this hypothesis. Seekers are more likely to be larger organisations, those with above £1m sales turnover being almost three times more likely to seek repayable finance and larger social enterprises are more likely to be successful in receiving finance. This supports findings on SME finance which shows the lack of track record leading to information asymmetries between investors and younger enterprises (SBS, 2012; ERC - Owen et al., 2015). As expected, those predicting growth are more likely to seek finance but 11 per cent of social enterprises forecasting decreasing income also sought repayable finance.

Although less significant, the higher proportion of growth oriented social enterprises seeking finance (16.4 per cent) corresponds with findings for UK SMEs (SBS, 2012; RT&P, 2010). In terms of age, those in the 6 to 10 year age group were more likely to seek finance. This differs from other SMEs where there is greater likelihood of seeking finance in the first five years (BIS, 2013). This study shows that younger social enterprises are more likely to have growth ambitions. It suggests a potential tipping point at which social enterprises reach a development life cycle stage when they have sufficient trading record and confidence to apply for loan finance. Those younger organisations rely on grants and retained earnings to grow.

Furthermore, those with the public sector providing their main income were more likely to seek finance, as there is growth in opportunities for social enterprise in these sectors. However, this correlation may be explained by the larger organisations being more likely to win public sector contracts.

The findings also provide evidence of the success rates. First, there are the 3.5 per cent of social enterprises (24 per cent of those seeking) that have tried but failed to get repayable finance from banks, social investors and other sources. On the basis of these initial success rates, social enterprises appear marginally more successful than their SME employer counterparts with surveys reporting that 32 per cent of SMEs were not able to get the repayable finance they sought.

Previous literature has suggested that social enterprises may be less likely to be successful in obtaining debt finance from mainstream lenders than SMEs because they will face additional and specific moral hazards (Westall, 2001), agency failures and organisational issues (Sunley and Pinch, 2012) and information asymmetries. However, in this study, the social enterprises surveyed appear to be more successful. The reasons behind this are not clear but could be attributed to higher quality propositions, the role of the social investment finance intermediaries, or more marginal applications being deterred.

The second research question was concerned with the sources of finance. Much literature on the subject has been exploring the supply of innovative approaches of 'social investment' which provide repayable finance while also aiming to having social outcomes. Hypothesis 2 stated:

> *H2. Social enterprises have a preference for social investment sources of finance over other forms of repayable finance*

The findings show that this hypothesis is rejected with more social enterprises seeking finance from banks despite social investors claiming that there was a shortage of deals and investable propositions available to them at the time of the survey. Social investment is found to play a small but important role with 3.6 per cent of social enterprises using these sources. This suggests that a ‘pecking order theory’ for social enterprise needs to be reappraised as banks and social investors appear to be at similar positions in the order. The concerns over lack of bank investment in place could also be due to the investors’ concerns over the lack of track record and business experience, rather than claims that banks are concerned about ownership. The large amount of bank lending to non-trading charities also shows that banks may be willing to lend to organisations with different forms of ownership if they are convinced about their ability to repay. Indeed, the risk averse nature of non-profit and social enterprise leaders and trustees, may be making these forms of organisations more attractive than conventional SMEs.

The third research question sought to identify the types of social enterprises using social investment. Hypothesis 3 stated:

> *H3. Social investment is more likely to be provided to social enterprises that cannot seek finance from elsewhere due to lack of collateral.*

Previous literature has assumed that social investment exists to fill a market failure found in mainstream bank finance particularly for those enterprises that have no assets to secure finance and do not have a track record with banks because of their young age, or information asymmetries where SE legal form of ownership is less easily understood or accepted by mainstream lenders. Our findings suggest that the latter point can largely be rejected and that mainstream banks have adapted to lending to SE legal forms. The research shows that the social investors do offer more unsecured loans to 60 per cent of applicants with banks offering unsecured loans to 42 per cent of their social enterprise applicants. However, the analysis shows an insignificant different in success rates for those having secured or unsecured lending. This revealed an insignificant difference with 27 per cent of unsecured applications being rejected compared to 24 per cent of secured loans being rejected. It appears more likely that rejection is due to the organisation having a poor business proposition, in which case they should not be applying for repayable finance in the first place and be advised to seek other ways of meeting their social purpose. These organisations may also be a focus for business support to build their capacity to develop a sustainable business. Overall, whilst there is no significant difference in SE finance applicant success rates by age, it is clear that specialist SE finance is more likely to be sought by younger SEs and it is those under 6 years trading age where specialist SE finance is more likely to be required.

Conclusion

There is much interest in the forms of finance that are able to help social enterprises scale up their social impact. This study has shown that a sizable proportion of social enterprises (15 per cent) are seeking repayable finance, despite the view that these types of organisations are averse to borrowing. This proportion of borrowers is only slightly lower than rates found among SME populations. The study has also found that those borrowing tend to be the older and larger organisations that have the track record of successful business and therefore the information to demonstrate their ability to repay the finance. This is in line with SME finance theory.

The attention given social investors in the social enterprise literature and in other media, might lead people to assume that these funds are the most important sources of finance. This study has shown that mainstream banks are much more important, despite the fact that many social investment funds are struggling to find investable propositions. It is therefore suggested that the social investors are not offering attractive propositions or timely responses, or targeting sufficiently where demand is most required for younger SEs. This suggests a potential role for policymakers in enhancing the supply of specialist or mainstream finance – alongside appropriate investor readiness support.

This also raises questions about the role of public policy and philanthropic funds in shaping the supply of social investment. Policy change, along with substantial policy rhetoric relating to the roles of social enterprise and now social investment, has encouraged a shift amongst charities and other 'not for profit forms' from a reliance on grants and donations to trading income and now loan finance. These policies can also be seen as displaying hybridity with multiple objectives beyond supporting the financial growth of firms to wider social and economic objectives. However, the theories of public sector intervention for these hybrid forms have failed to adequately explore the concept of displacement.

This study has limitations from the size of the sample, despite being one the biggest social enterprise surveys in the UK. We also acknowledge the cross-sectional nature of the study and the need for longitudinal research. Nonetheless, this represents a first valid step towards understanding the UK experience. Future follow-up research is needed on a large sample of social enterprises that have sought social investment finance, and on the discouraged borrowers who have not sought finance but are interested in applying for finance that meets their social goals. Evaluations of social investment need to pay more attention to additionality and there is a need to assess the actual impact of the social investment on beneficiaries of the social enterprises.

Appendix: Binary logit regression models

Model 1: Social enterprise likelihood of seeking debt finance in the previous 12 months (n=878)

	B	S.E.	Wald	df	Sig.	Exp(B)
Age 6-10 yrs	.631	.232	7.383	1	**.007**	1.879
Public trade	.213	.256	.691	1	.406	1.238
TS/SE trade	.498	.316	2.477	1	.115	1.645
Sales <£100k	-.583	.256	5.169	1	**.023**	.558
Sales £1m+	.785	.261	9.088	1	**.003**	2.193
Grow aim	.461	.248	3.444	1	.063	1.585
Decline likely	-.492	.448	1.204	1	.273	.611
CLG	.250	.225	1.238	1	.266	1.284
CIC	.207	.292	.501	1	.479	1.230
Cult/leisure	.478	.301	2.530	1	.112	1.613
Emp/train	.271	.285	.905	1	.341	1.311
Socia/child	.629	.284	4.902	1	**.027**	1.875
Retail/hos/tran	.602	.269	5.002	1	**.025**	1.826
Creative	.461	.379	1.475	1	.224	1.586
Constant	-2.733	.318	74.023	1	.000	.065

a. Variable(s) entered on step 1 in order above

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	615.109[a]	.071	.122

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

The above findings which are extremely robust (R sq .122), indicate that the following business characteristics were all significantly (<.05 level) more likely to be associated with social enterprise debt finance seekers during the previous 12 months: most significantly the largest SEs with annual income of £1m or more (<.01 level), SEs aged between 6-10 years (<.01 level), with the social services and childcare and retail, hospitality and transport sectors all significant (<.05 level). Future growth aim was fairly significant (at <.1 level), whilst the smallest social enterprises with annual income of under £100k were significantly (<.05 level) less likely to seek finance.

Neither Model 2 nor Model 3 relating to receipt of all or at least some of the debt finance applied for reveal any highly significant results and their considerably smaller sample sizes render them less robust. The strongest tendencies appear to be for larger social enterprises to be more successful, both in terms of receiving all or at least some debt funding. Also intriguingly, whilst employment and training was the least likely sector (within the multivariate analysis presented) to apply for debt finance it was the sector most likely to receive at least some debt funding, the sector contains an above average proportion of larger social enterprises seeking finance and an above average proportion of these succeeding in obtaining finance, suggesting that whilst the larger enterprises presented strong cases, the overall poor performance in the sector presented by the univariate analysis was down to a high proportion of smaller enterprises failing to obtain debt finance. Again, whilst not significant, CLGs were less likely to receive some or all debt funding sought.

Model 2: If at least some funding received (n=130)

	B	S.E.	Wald	df	Sig.	Exp(B)
Age 6-10 yrs	-.174	.484	.129	1	.720	.841
Public trade	.566	.579	.957	1	.328	1.761
TS/SE trade	-.088	.626	.020	1	.888	.915
Sales <£100k	-.038	.596	.004	1	.949	.963
Sales £1m+	.751	.582	1.661	1	.197	2.119
Grow aim	.302	.545	.308	1	.579	1.353
Decline likely	1.178	1.358	.752	1	.386	3.248
CLG	-.732	.565	1.678	1	.195	.481
CIC	-.556	.657	.716	1	.397	.574
Cult/leisure	.487	.637	.584	1	.445	1.628
Emp/train	1.613	1.148	1.976	1	.160	5.020
Socia/child	-.394	.613	.414	1	.520	.674
Retail/hos/tran	.515	.576	.801	1	.371	1.674
Creative	-.333	.737	.204	1	.651	.717
Constant	.852	.722	1.395	1	.238	2.345

a. Variable(s) entered on step 1 in order above

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	127.235[a]	.099	.144

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

Model 3: If received all debt funding (n=130)

	B	S.E.	Wald	df	Sig.	Exp(B)
Age 6-10 yrs	.149	.468	.101	1	.750	1.161
Public trade	.336	.538	.390	1	.532	1.399
TS/SE trade	-.380	.606	.394	1	.530	.684
Sales <£100k	.024	.567	.002	1	.966	1.025
Sales £1m+	.884	.554	2.544	1	.111	2.420
Grow aim	.607	.513	1.398	1	.237	1.834
Decline likely	1.703	1.347	1.597	1	.206	5.489
CLG	-.604	.525	1.322	1	.250	.547
CIC	-.381	.623	.373	1	.541	.684
Cult/leisure	.806	.643	1.575	1	.209	2.240
Emp/train	.967	.895	1.167	1	.280	2.631
Socia/child	.061	.598	.011	1	.918	1.063
Retail/hos/tran	.354	.536	.437	1	.509	1.425
Creative	-.559	.719	.605	1	.437	.572
Constant	.109	.674	.026	1	.872	1.115

a. Variable(s) entered on step 1 in order above

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	137.022[a]	.117	.164

a. Estimation terminated at iteration number 5 because parameter estimates changed by less than .001.

References

Akerlof, G.A. (1970) The Market for 'Lemons:' Quality and the Market Mechanism. Quarterly Journal of Economics, 84 (August): 488-500

Akerlof G A (1976) The Economics of Caste and of the Rat Race and Other Woeful Tales. The Quarterly Journal of Economics, Vol.90 No.4 pp 599-617

Atherton A (2009) Rational Actors, Knowledgeable Agents: Extending Pecking Order Consideration of New Venture Financing to Incorporate Founder Experience, Knowledge and Networks. International Small Business Journal, Vol. 27 (4) pp.470-495

Austin, J., Stevenson, H. and Wei-Skillern, J. (2006). Social and commercial entrepreneurship: same, different or both? Entrepreneurship Theory and Practice, 30, pp.1-22

Baldock R (2013) Why do UK Small Technology Businesses continue to undertake Initial Public Offerings? An assessment in the aftermath of the late 2000s financial crisis. Paper to the Institute for Small Business and Entrepreneurship, Cardiff 12-13th November

Bank of England (2015) Funding for Lending Scheme – 2015 Q4 usage and lending data http://www.bankofengland.co.uk/publications/Pages/fls/q415.aspx

Bank of England. (1996). The Financing of Technology-based Small Firms. London: Bank of England

Bank of England (2003) The Financing of Social Enterprises: A Special Report by the Bank of England, May

Bank of England. (2001). The Financing of Technology-based Small Firms. London: Bank of England

Beck T, Degryse H, Haas RD and Neeltje HV (2014) When arm's length is too far: Relationship banking over the business cycle. European Bank Working Paper no.169, July

Berger A.N. and G. F. Udell (1995) Relationship Lending and Lines of Credit in Small Business Finance, Journal of Business 68, 351-381.

Berger, A. N., and G.F. Udell. (1998). The economics of small business finance: the roles of private equity and debt markets in the financial growth cycle. Journal of Banking and Finance, 22: 613-673

Berger A.N. and G. F. Udell (2006) A More Complete Conceptual Framework for SME Finance, Journal of Banking & Finance 30(11), 2945-2966

Billis, D. (2010). Towards a theory of hybrid organizations. In Billis, D. (ed), Hybrid Organizations and the Third Sector. Basingstoke: Palgrave Macmillan, pp. 46-69

Birkett I (2010) Financing Social Enterprise: Understanding Needs and Realities. Foresters Research Report. Foresters Community Finance, Australia

BIS (2009) Early Stage Assessment of the Impact of the Enterprise Finance Guarantee (EFG) on Recipient Firms. Report to the Department for Business, Innovation and Skills, URN09/1594

BIS (2013) Small Business Survey 2012: SME Employers. Report by BMG to the Department for Business Innovation and Skills, April

BMG Research, (2013) Social Enterprise: Market Trends. Report for Cabinet Office, London

Bolton P, X. Freixas, L. Gambacorta and P.E. Mistrulli (2013), "Relationship and Transaction Lending in a Crisis", Temi di Discussione 917, Bank of Italy

Breedon T (2012) Boosting Finance Options for Business, Report of industry-led working group on alternative debt markets, March

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32230/12-668-boosting-finance-options-for-business.pdf
Bryson, J.M. and Buttle, B. (2005). Enabling inclusion through alternative discursive formations: the regional development of community development loan funds in the UK. The Services Industries Journal, 25, pp. 273-288.
Cabinet Office (2011) Growing the social investment market: a vision and strategy
Castellas, E. I. , Ormiston, J., Findlay, S. (2018) "Financing social entrepreneurship: The role of impact investment in shaping social enterprise in Australia", Social Enterprise Journal, https://doi.org/10.1108/SEJ-02-2017-0006
Chertok, M., Hammoui, J. and Jamison, E. (2008). The funding gap. Stanford Social Innovation Review, 26, pp. 44-51
Cowling, M., Liu, W., and Ledger, A. (2012) 'Small business financing in the UK before and during the current financial crisis'. International Small Business Journal, vol. 30 (7) pp. 778-800
Cressy, R. (2002). Funding Gaps: A Symposium. The Economic Journal. 112(477) , 1-20
Dees, J.G. (1998). Enterprising non-profits. Harvard Business Review, 76, pp. 55-67
Doherty, R., Haugh, H. and Lyon, F (2014) Social enterprises as hybrid organizations- A review and research agenda International Journal of Management Reviews DOI: 10.1111/ijmr.12028
Eisenhardt, K.M. and Martin, J.A. (2000) "Dynamic Capabilities: What are they?" Strategic Management Journal, vol 21, pp 1105-1121.
European Commission (2014) The Social Business Initiative of the European Commssion, May
http://ec.europa.eu/internal_market/publications/docs/sbi-brochure/sbi-brochure-web_en.pdf
Fraser (2014) Back to borrowing: Perspectives on the arc of discouragement. Enterprise Research Centre (ERC) Working Paper no. 8, March
Fraser, S. (2009) Small Firms in the Credit Crisis: Evidence from the UK survey of SME finances, Warwick Business School, University of Warwick
GHK (2013) Growing the social investment Market: The Landscape and Economic Impact Report to City of London, Guildhall, London
GLA (2013) SME Finance in London, SQW report to the Greater London Authority, Novermber
https://www.london.gov.uk/sites/default/files/15121 per cent20- per cent20SME per cent20finance per cent20in per cent20London per cent20- per cent20final per cent20report per cent20November_1.pdf
Gregory, D. K. Hill, I. Joy, S. Keen (2012) Investment readiness in the UK.Big Lottery Fund
Hall, K., Alcock, P. and Millar, R. (2012) Start Up and Sustainability: Marketisation and the Social Enterprise Investment Fund in England, Journal of Social Policy, 41(4), pp. 733-749.
Hughes (2009) Hunting the Snark: some reflections on the UK support for the small business sector, Innovation, Management, Policy and Practice 11 pp. 114-126
Kon, Y. and Storey, D.J. (2003) "A Theory of Discouraged Borrowers" Small Business Economics, vol 21 pp 37-49.

Leleux B, Surlemont B, (2003) Public versus private venture capital: seeding or crowding out? A pan-European analysis, *Journal of Business Venturing* **18** 81-104

Lerner J, 2010, "The future of public efforts to boost entrepreneurship and venture capital", *Small Business Economics*, **35** 255-264

Lever W and Moore C (1986) The City in Transition: Policies and Agencies for the Regeneration of Clydeside. Oxford, Clarendon Press

Lumpkin, G.T., Moss, T. W., Gras, D.M., Kato, S. and Amezcua, A.S. (2013).

Entrepreneurial processes in social contexts: how are they different, if at all? Small Business Economics, 40, pp.761-783

Lyon, F. and Sepulveda, L. (2009) Mapping social enterprises: past approaches, challenges and future directions, Social Enterprise Journal, Vol 5:1, pp. 83-94

Lyon, F and Al Furuq, A. (2018) Hybrid organisations and models of social enterprise in Ghana and Bangladesh in Spence, L., et al (eds) Research Handbook on Small Business Social Responsibility: Global Perspectives. Cheltenham, Edward Elgar

Macmillan, H.P. (1931) Committee on Finance and Industry Report, The Macmillan Report, July

Mair, J. and Martì, I. (2006). "Social Entrepreneurship research: A source of explanation, prediction, and delight", Journal of World Business, 41: 36-44.

Mason, C.M., and J. Kwok. (2010). Investment readiness programmes and access to finance: a critical review of design issues. Local Economy 25, no.4: 269-292

Mason, C.M., and R.T. Harrison. (2001). Investment readiness: A critique of government proposals to increase the demand for venture capital. Regional Studies 35 no.7: 663 – 668

Myers, S. (1984) The Search for Optimal Capita Structure. Midland Corporate Finance Journal, 1 (Spring): 6-16

Myers, S. and N. Majluf, N. (1984) Corporate Financing and Investment Decisions when Firms have Information that Investors do not have, *Journal of Financial* Economics 13, 187-221.

NAO, 2009, "*Venture Capital Support to Small Businesses*", report of the National Audit Office to the House of Commons, 23 Session, 2009-10

Nicholls, A (2010) The institutionalization of social investment: The interplay of investment logics and investor rationalities, Journal of Social Entrepreneurship1,1, 70-100

North D, Baldock R, and Ullah F (2013) The finance escalator and the growth of UK technology-based small firms since the financial crash, Venture Capital 15 (3)

Owen R, Botehlo T and Anwar O (2016) Exploring the success and barriers to SME access to finance and its potential role in achieving growth. Enterprise Research Centre (ERC) working paper 53, November

Pache, A.C. and Santos, F. (2012). Inside the hybrid organisation: selective coupling as a response to competing institutional logics. Academy of Management Journal, doi: 10.5465/amj.2011.0405

Peredo, M,A. and Chrisman, J, J. (2006) Towards a theory of Community-based Enterprise. Academy of Management Review, 31, pp.309-328

Rizzi, F Pellegrini, C., Battaglia, M, (2018) The structuring of social finance: Emerging approaches for supporting environmentally and socially impactful projects, Journal of Cleaner Production,170, 805-817,

RT&P (2010) Understanding Finance for Business: evaluation of Investment Readiness and Finance Readiness 2010-12. Report by Roger Tym & Partners to London Development Agency

Scarlata, M. and L. Alemany, L. (2010) Deal Structuring in Philanthropic Venture Capital Investments: Financing Instrument, Valuation and Covenants, Journal of Business Ethics 95, 2

SEUK (2013) State of Social Enterprise Survey 2013. BMG survey and report for Social Enterprise UK, April

Smith, G. and Teasdale, S. (2012). Associative democracy and the social economy: exploring the regulatory challenge. Economy and Society, 41, pp. 151-176

Stiglitz J and Weiss, A (1981) Credit rationing in markets with imperfect information. The American Economic Review 71, 3 pp. 393-410

Sunley, P. and Pinch, S. (2012). Financing social enterprise: social bricolage or evolutionary entrepreneurialism? Social Enterprise Journal, 8 (2), pp. 108-122

Teasdale, S. (2012). What's in a name? Making sense of social enterprise discourses. Public Policy and Administration, 27 (2), pp. 99-119

Teasdale, S., Lyon, F., and Baldock, R. (2013) Playing with numbers: A methodological critique of the social enterprise growth myth, Journal of Social Entrepreneurship, Published Online 12 March 20134,2 113-131.

TSI (2011) Financing Social Enterprises. Report by The Social Investment consultancy, March http://www.tsiconsultancy.com/wp-content/uploads/2012/04/Financing-Social-Enterprises-Mar-2011.pdf

Tracey, P., Phillips, N. and Jarvis O. (2011). Bridging institutional entrepreneurship and the creation of new organizational forms: a multilevel model. Organization Science, 22(1), pp. 60-80

VanSandt, C., Sud, M. and Marmé, C. (2009). Enabling the original intent: catalysts for social entrepreneurship. Journal of Business Ethics, 90 (3), pp. 419-428

Vickers, I., F Lyon, L Sepulveda, C McMullin (2017a) Public service innovation and multiple institutional logics: The case of hybrid social enterprise providers of health and wellbeing *Research Policy*, https://doi.org/10.1016/j.respol.2017.08.003

Vickers, Ian and Andrea, Westall and Roger, Spear and Brennan, Geraldine and Syrett, Stephen (2017 b) *Cities, the social economy and inclusive growth.* Project Report. Joseph Rowntree Foundation, York.

Wells, P (2012) Understanding Social Investment Policy: Evidence from the evaluation of Futurebuilders in England. Voluntary Sector Review 3,2, 157-177

Wilson, F. and Post, J.E. (2013). Business models for people, planet (& profits): exploring the phenomena of social business, a market-based approach to social value creation. Small Business Economics, 40, pp. 715-737.

Author Biographies:

Professor Fergus Lyon is Head of the Centre for Enterprise and Economic Development Research (CEEDR), Middlesex University Business School. A major focus of his research has been social and environmental hybrid enterprise policy related.

Dr Robyn Owen is Associate Professor of Entrepreneurial Finance at the Centre for enterprise and Economic Development Research (CEEDR), Middlesex University Business School. She specialises in early stage enterprise finance policy and innovation.

Tables for main body text (as indicated)

Table 1: Types of Social Enterprise Debt Finance Seekers

	Per cent of seekers in row category	Number of Seekers	Per cent of All SEs
Annual business income: most recent recorded year end			
<£100k	9.8***	31	3.5
£100k to £1m	15.9	52	5.9
£1m+	28.1***	38	4.3
Growth orientation: forecast income change during the next 2-3 years			
Increase	16.4	90	10.3
Same	13.3	28	3.2
Decrease	11.4	9	1
Trading age			
Up to 2 years	14	27	3.1
3-5 years	12.5	17	1.9
6-10 years	22.3**	40	4.6
11-20 years	15.9	25	2.8
21+ years	10.1	21	2.4

Note: * significant at <.05 level; ** significant at <.01 level; significant at <.001 level

Table 2: Main sources of debt finance applied for

	Per cent of each category that are seeking	Number of Seekers	Per cent of All SEs
Bank	63.8	83	9.5
All Social Funders (SB, SI, CDFI)	24.6	32	3.6
Other (not social investors)	34.6	45	5.1

Note: Seven out of eight (87.7 per cent) debt finance seekers sought more than one type of finance (n=130 debt finance seekers). Social funders include specialist intermediaries with a social mission: social investors, social banks and community development finance institutions. 'Other' comprises building societies, credit unions, government/local authority loans, peer to peer lenders and informal friends and family lenders.

Table 3: Amount of Debt Finance Sought by size of social enterprise and provider type

Provider	N=	Min (£)	Max (£)	Med (£)	Mean (£)	Trimmed mean
Bank	74	2,000	30,000,000	80,000	1,352,064	505,164
All Social investors	29	15,000	7,000,000	250,000	705,414	437,174
Other (not social investors)	38	6,000	5,500,000	100,000	620,547	386,140
All debt seekers	107*	500	30,000,000	85,000	1,048,122	£380,643

Note: Includes examples of multiple finance seeking from different sources; Trimmed mean excludes outlying highest and lowest 5 per cent of responses; *23 missing cases

Table 4: Type of Lender by Social Enterprise Success Rates in Obtaining Debt Finance

	All	At least Some	None	Seekers
	Row per cent	Row per cent	Row per cent	N=
All Social Funders (SB, SI, CDFI)	75	75	25	32
Bank	65.1	73.5	16.5	83
Other (no social funders)	73.3	77.8	22.2	45

Note: 10 per cent of bank applications were pending at time of survey